

TO: State Directors
Rural Development

ATTN: Multi-Family Housing Program Directors

FROM: Russell T. Davis
Administrator
Rural Housing Service

SUBJECT: 7 CFR Part 3560
Multi-Family Housing (MFH) Programs
Guidance for Fiscal Year (FY) 2005 Financial Reporting

In light of the unforeseen and unprecedented response to Hurricane Katrina by Rural Development and the delayed receipt of the Engagement Letter from the Office of Inspector General (OIG), the implementation of 7 CFR 3560.308(b), "Engagement Requirements," is delayed until June 30, 2006. This letter provides guidance for the borrowers' financial reporting for Fiscal Year (FY) 2005, which will be the same requirements as the previous RD Instruction 1930-C.

For FY 2005, all projects will submit financial reports as follows:

Form RD 3560-7, "Multiple Family Housing Project Budget/Utility Allowance." An annual report of actuals for the full operating year will be submitted by the borrower, or its agent, using Form RD 3560-7. The report will reflect the actual income and expenses for the project for the borrower's 12 month operating year. The actuals must be submitted using the same format as was used to submit the proposed FY 2005 budget. The report will be submitted with the annual audit report or Form RD 3560-10 as appropriate.

Miscellaneous Management Reports. These reports include, but are not limited to, the following items that provide additional or unique information that augment or otherwise support other management reports described in this section:

Minutes of annual meetings. Written record of annual meeting of organizational borrowers who, by their organizational charter, are required to maintain such written records.

EXPIRATION DATE: September 30, 2006

FILING INSTRUCTIONS:
Housing Programs

Miscellaneous items. These include other written or electronically stored data or information such as financial or income/expense data, justification statements, or other technical or informative material that stands alone or supports other management reports described in this section, whether volunteered by the borrower or requested by the Servicing Official.

For FY 2005, projects with 24 units or less.

Form RD 3560-10, “Multi-Family Housing Borrower Balance Sheet.” Form RD 3560-10 will be used for the verification of review of project accounts and the review verifier will also review the actual data on Form RD 3560-7 for projects with 24 or fewer units unless the State Director or Servicing Official determines that a project with 24 or fewer units requires an audit for reasons of good cause. Such reasons include, but are not limited to, situations where project records are incomplete or inaccurate, or it appears that the borrower has not adequately accounted for project funds, or where the borrower's operation consists of multiple projects where each project is 24 or fewer units (with subsidiary reports prepared for each project).

The State Director or Servicing Official may authorize the initial verification of review to cover a period up to 18 months for a new project whose first operating year was less than 6 months.

Form RD 3560-10 will be prepared by a competent person qualified by education and/or experience who has no identity of interest or possible conflict of interest with the borrower or its principals. However, in the case of a nonprofit institution, the verification of review may be made by a committee of the membership but may not include any officer, director or employee of the borrower.

Fraud, abuse, and illegal acts. If the review verifier becomes aware of any indication of fraud, abuse or illegal acts in Rural Development financed projects, prompt written notice shall be given to the appropriate USDA OIG Regional Inspector General and the Servicing Official.

For FY 2005, projects with 25 units or more, in addition to the requirements outlined above, an annual audit report is required.

An audit report will be in the format as prepared by a Certified Public Accountant (CPA) or Licensed Public Accountant (LPA), provided the LPA was licensed on or before December 31, 1970.

All audits are to be performed in accordance with generally accepted government auditing standards (GAGAS), as set forth in "Government Auditing Standards" established by the Comptroller General of the United States, and any subsequent revisions (this publication is commonly referred to as the "Yellow Book" or "General Accounting Office Standards"). The 2003 revision of "Government Auditing Standards" or "Yellow Book" may be downloaded from www.gao.gov. In addition, the audits are also to be performed in accordance with applicable portions of various Office of Management and Budget (OMB) Circulars.

The project audit report should cover the borrower entity and the expense for preparation of the audit report may include the auditor's preparation of any Internal Revenue Service (IRS) required borrower entity reports, i.e., Schedule K-1 (IRS Form 1065), "Partner's Share of Income, Credits, Deductions, etc."

The CPA or LPA auditor who prepares the audit report may not be an individual or organization that is associated with the borrower in any manner, other than the performance of the audit review and preparation of the project audit report and required IRS reports that creates an identity of interest or possible conflict of interest. For example, the CPA or LPA auditor may not be an employee of the borrower or an employee of any officer of the organization, nor be an employee of any member, stockholder, partner, principal, or have any ownership or other interest in the borrower organization.

The State Director or Servicing Official may authorize the initial audit report to cover a period up to 18 months for new projects whose first operating year does not exceed 6 months. The State Director may also make an exception to the CPA or LPA audit requirement for not more than one successive year in a specific case providing: the borrower submits a written request; the Agency approved budget for the project includes a typical and reasonable fee for the audit but the negotiated cost of an audit would increase the monthly per unit rental rate by more than \$4.00; and the required reports, including a CPA or LPA prepared audit, were properly submitted for the prior year's project operations.

Fraud, abuse, and illegal acts. If the review verifier becomes aware of any indication of fraud, abuse or illegal acts in Rural Development financed projects, prompt written notice shall be given to the appropriate USDA OIG Regional Inspector General and the Servicing Official.

Specific standards: State and local governments, Indian tribes and Nonprofit Organizations.

These organizations are to be audited in accordance with OMB Circular A-133, with copies of the audit being forwarded by the borrower to the Servicing Official and the appropriate Federal cognizant agency, if applicable. Cognizant agency is defined as the Federal agency assigned by OMB Circular A-133. Within USDA, the USDA OIG shall fulfill cognizant Agency responsibilities.

For guidance in meeting these requirements, the auditor may refer to the American Institute of Certified Public Accountants Audit and Accounting Guide for "Audits of State and Local Governmental Units." The term "Federal financial assistance" used here refers to Federal loan and/or grant funds received by the borrower, but not rental subsidies.

For FY 2005, all projects will submit financial reports by the following due date.

Annual audit reports, verifications of review, as appropriate, Form RD 3560-7 with 12 months of project operation actuals, and any miscellaneous reports are due in the Servicing Office no later than 90 days following the close of the project fiscal year.

If the audit or verification of review cannot be submitted by the due date, and the owner presents a request for extension supported by evidence that delay is at the request of the auditor, and the request has a reasonable explanation of why an extension of the due date is needed, the Servicing Officer may authorize up to a 60-day extension of the due date. If an explanation is not forthcoming from the auditor, or the explanation received is without good reason, or the Servicing Official otherwise suspects fiscal difficulty, the Servicing Official may request the borrower to submit to the Servicing Office for review, the project bank statements for the general operating, reserve, and investment accounts covering the most recent 60 day period.

If the borrower fails to submit the requested bank statements by the date stipulated by the Servicing Official, the Servicing Official will immediately refer the matter to the OIG.

If you have any questions, please contact Joan Atkinson at (202) 720-1609 or Janet Stouder at (202) 720-9728.

Cc:

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MHSPM-Stouder

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